

Sub-par margin; near-term weakness in top client to weigh on growth

Information Technology ▶ Result Update ▶ January 17, 2025

TARGET PRICE (Rs): 6,000

LTIM reported a mixed performance in Q3FY25; revenue growth of 1.8% QoQ CC was in line with our estimate, while EBITM of 13.8% fell slightly short of our expectations. Deal wins of USD1.7bn (book-to-bill: ~1.5x) was the highest ever, supported by large deals, vendor consolidation, and deal renewals, particularly in BFSI. The deal pipeline continues to be dominated by cost reduction and vendor consolidation. The management expects growth momentum to sustain in Q4 on the back of deal ramp-up, partial reversal of furloughs, and continued strength in BFS, though partly offset by near-term headwinds from AI-driven productivity in the top client and lesser working days. Discretionary spending has improved in select pockets of BFS (regulatory space), though broad-based spends are yet to rebound in a secular manner. Based on recent deal-wins and pipeline, FY26 is expected to be better than FY25, with focus maintained on profitable growth. We tweak FY25-27E EPS by 1.2-1.8%, considering the Q3 performance; retain REDUCE and TP of Rs6,000 at 28x Dec-26E EPS.

LTIMindtree: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	331,830	355,170	381,183	422,875	479,597
EBITDA	61,077	63,874	66,379	77,688	90,506
Adj. PAT	44,083	45,821	46,807	55,045	65,272
Adj. EPS (Rs)	149.0	154.8	158.0	185.8	220.4
EBITDA margin (%)	18.4	18.0	17.4	18.4	18.9
EBITDA growth (%)	16.4	4.6	3.9	17.0	16.5
Adj. EPS growth (%)	11.6	3.9	2.1	17.6	18.6
RoE (%)	26.6	25.0	21.9	22.6	23.5
RoIC (%)	53.8	51.5	44.6	48.8	54.3
P/E (x)	40.1	38.6	37.8	32.2	27.1
EV/EBITDA (x)	28.6	27.4	26.4	22.4	19.1
P/B (x)	10.7	8.8	7.8	6.8	6.0
FCFF yield (%)	1.2	2.7	2.0	2.9	3.2

Source: Company, Emkay Research

Results Summary

Revenue grew 1.1% QoQ (1.8% CC) to USD1.14bn, similar to our estimate of 1.8% CC growth. EBITM declined by 170bps QoQ to 13.8%, slightly lower than our estimate of 14%. EBITM was negatively impacted by wage hikes (-220bps) and partially offset by ongoing efforts on cost optimization (50bps). All industries saw decline in their operating margins sequentially. Ttop-5 clients' revenue declined 0.7% QoQ, while the top 6-10 clients saw growth of 1.1% QoQ. North America and ROW saw growth of 0.7% and 9% QoQ, respectively, in USD terms, while Europe declined 2.7% (CC 3% growth). Among verticals, BFSI and Manufacturing & Resources saw growth of 3.4% and 8.1% QoQ, while CMT, Consumer, and Healthcare, Lifesciences & Public Services declined 5.8%, 0.7%, and 0.2% QoQ, respectively. TTM attrition - saw a marginal dip to 14.3% from 14.5%, in Q2FY25. Total headcount grew 2.8% QoQ to 86,800. Utilization (excl trainees) declined from 87.7% in Q2 to 85.4% in Q3. **What we liked:** Strong deal intake, healthy cash conversion (OCF/EBITDA 86%). **What we did not like:** Margin miss, weakness in top client.

Earnings Call KTAs

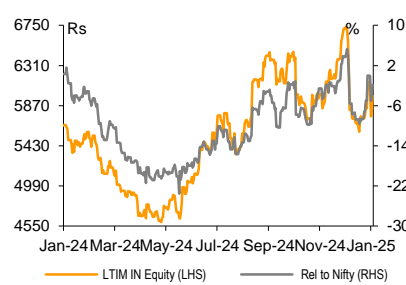
1) LTIM won record deal wins (worth USD1.68bn, up 29% QoQ), which include a new logo worth over USD50mn in Manufacturing, and two large deals in the BFSI vertical. 2) Technology declined 5.5% CC QoQ due to pass-through of AI-driven productivity benefit at the top client. The mgmt indicated that this caused an impact for 2 months in Q3, and that the full-quarter impact will reflect in Q4 numbers. The mgmt stated that impact on margin will be neutral from passing-on of productivity benefits. 3) It expects margins to improve in Q4, though full impact of absorbing the wage hikes may take longer in the current growth environment. Margin improvement continues to be a growth factor. 4) AI spends have started shifting from proof of concept to scale projects in select areas as well as foundational data and infrastructure. Savings from cost reduction and vendor consolidation programs are being deployed in pilot programs and for scaling AI initiatives. 5) Utilization comfort-range remains at 85-86%. Q4 would see improvement in utilization which should aid margin. Ahead, utilization and hiring should remain a function of market conditions and demand environment. 6) Manufacturing has seen good momentum, with LTIM signing a couple of large deals. It has lower exposure to Auto, and is considerably engaged in Industrial Manufacturing. 7) LTIM added 1,400 freshers in Q3.

Target Price - 12M	Dec-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	0.4
CMP (16-Jan-25) (Rs)	5,978.8

Stock Data	Ticker
52-week High (Rs)	6,768
52-week Low (Rs)	4,514
Shares outstanding (mn)	296.3
Market-cap (Rs bn)	1,771
Market-cap (USD mn)	20,467
Net-debt, FY25E (Rs mn)	-20,892
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	2,033.6
ADTV-3M (USD mn)	23.5
Free float (%)	31.0
Nifty-50	23,312
INR/USD	86.6
Shareholding, Sep-24	
Promoters (%)	68.6
FPIs/MFs (%)	7.4/14.9

Price Performance			
(%)	1M	3M	12M
Absolute	(11.3)	(6.0)	(4.1)
Rel. to Nifty	(6.1)	0.7	(9.4)

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenue (USD)	1,139	1,127	1.1	1,084	5.1
Net sales	96,609	94,329	2.4	90,166	7.1
Operating expenses	80,676	77,336		74,317	
EBITDA	15,933	16,993	-6.2	15,849	0.5
Margins (%)	16.5	18.0	-150.0	17.6	(110.0)
Depreciation	2,644	2,411		1,990	
EBIT	13,289	14,582	-8.9	13,859	-4.1
Margins (%)	13.8	15.5	-170	15.4	(160.0)
Forex Gains/(Losses)	132	751		426	
Other income	1,304	1,535		1162	
Pre-tax profit	14,725	16,868	-12.7	15,447	-4.7
Tax provided	3,858	4,352		3,754	
Profit after tax	10,867	12,516		11,693	
Emkay Net profit	10,854	12,510	-13.2	11,689	-7.1
EPS (Rs)	36.6	42.3	-13.3	39.5	-7.2

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (USD mn)	1,139	1,142	1,123	-0.3%	1.4%	Revenue was in line with our expectations.
Sales (Rs mn)	96,609	96,645	96,485	0.0%	0.1%	
EBIT (Rs mn)	13,289	13,575	13,668	-2.1%	-2.8%	Margins came in lower than our expectations.
EBIT margin	13.8%	14.0%	14.2%	-30 bps	-40 bps	
PAT (Rs mn)	10,854	11,248	11,491	-3.5%	-5.5%	PAT missed expectations due to margin miss and higher ETR.

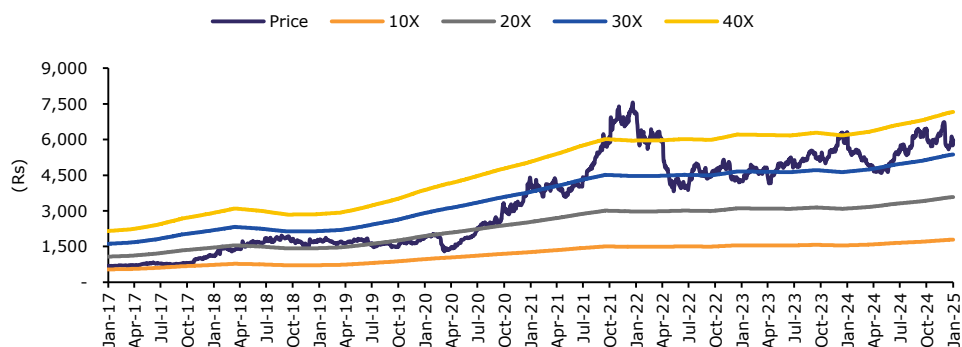
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	4,530	4,517	-0.3%	5,007	4,946	-1.2%	5,585	5,513	-1.3%
YoY growth (%)	5.7	5.4		10.5	9.5		11.5	11.5	
Revenue (Rs mn)	382,026	381,183	-0.2%	428,103	422,875	-1.2%	485,866	479,597	-1.3%
EBIT (Rs mn)	56,883	56,323	-1.0%	68,386	66,631	-2.6%	80,168	78,574	-2.0%
EBIT margins (%)	14.9	14.8		16.0	15.8		16.5	16.4	
Net profit (Rs mn)	47,412	46,807		56,047	55,045		66,088	65,272	
EPS (Rs)	160.1	158.0	-1.3%	189.2	185.8	-1.8%	223.1	220.4	-1.2%

Source: Company, Emkay Research

Exhibit 4: LTIM – One-year forward PER



Source: Company, Emkay Research

LTIMindtree: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	331,830	355,170	381,183	422,875	479,597
Revenue growth (%)	27.1	7.0	7.3	10.9	13.4
EBITDA	61,077	63,874	66,379	77,688	90,506
EBITDA growth (%)	16.4	4.6	3.9	17.0	16.5
Depreciation & Amortization	7,227	8,189	10,056	11,056	11,932
EBIT	53,850	55,685	56,323	66,631	78,574
EBIT growth (%)	15.8	3.4	1.1	18.3	17.9
Other operating income	1,504	2,217	2,805	2,900	2,978
Other income	5,569	7,019	9,587	10,203	12,078
Financial expense	1,504	2,217	2,805	2,900	2,978
PBT	57,915	60,487	63,105	73,934	87,674
Extraordinary items	0	0	0	0	0
Taxes	13,812	14,641	16,260	18,853	22,357
Minority interest	20	25	38	36	45
Income from JV/Associates	0	0	0	0	0
Reported PAT	44,083	45,821	46,807	55,045	65,272
PAT growth (%)	11.7	3.9	2.2	17.6	18.6
Adjusted PAT	44,083	45,821	46,807	55,045	65,272
Diluted EPS (Rs)	149.0	154.8	158.0	185.8	220.4
Diluted EPS growth (%)	11.6	3.9	2.1	17.6	18.6
DPS (Rs)	60.0	65.0	67.0	78.0	93.0
Dividend payout (%)	40.3	42.0	42.4	42.0	42.2
EBITDA margin (%)	18.4	18.0	17.4	18.4	18.9
EBIT margin (%)	16.2	15.7	14.8	15.8	16.4
Effective tax rate (%)	23.8	24.2	25.8	25.5	25.5
NOPLAT (pre-IndAS)	41,007	42,206	41,811	49,640	58,538
Shares outstanding (mn)	295.8	295.9	296.2	296.2	296.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	57,915	60,487	63,105	73,934	87,674
Others (non-cash items)	5,893	5,940	10,056	11,056	11,932
Taxes paid	(15,217)	(15,707)	(16,260)	(18,853)	(22,357)
Change in NWC	(17,645)	5,975	(6,744)	(4,200)	(7,311)
Operating cash flow	30,946	56,695	50,156	61,938	69,939
Capital expenditure	(9,346)	(8,330)	(15,220)	(11,020)	(12,520)
Acquisition of business	(1,486)	(59)	0	0	0
Interest & dividend income	1,266	2,573	0	0	0
Investing cash flow	(3,309)	(39,121)	(27,620)	(31,020)	(32,520)
Equity raised/(repaid)	2	12	0	0	0
Debt raised/(repaid)	71	(280)	0	0	0
Payment of lease liabilities	(3,388)	(3,761)	0	0	0
Interest paid	(375)	(906)	0	0	0
Dividend paid (incl tax)	(15,627)	(17,753)	(19,844)	(23,102)	(27,545)
Others	0	0	0	0	0
Financing cash flow	(19,317)	(22,688)	(19,844)	(23,102)	(27,545)
Net chg in Cash	8,320	(5,114)	2,692	7,815	9,874
OCF	30,946	56,695	50,156	61,938	69,939
Adj. OCF (w/o NWC chg.)	48,591	50,720	56,901	66,138	77,249
FCFF	21,600	48,365	34,936	50,918	57,419
FCFE	21,362	48,721	32,131	48,018	54,441
OCF/EBITDA (%)	50.7	88.8	75.6	79.7	77.3
FCFE/PAT (%)	48.5	106.3	68.6	87.2	83.4
FCFF/NOPLAT (%)	52.7	114.6	83.6	102.6	98.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	296	296	296	296	296
Reserves & Surplus	165,625	199,876	226,839	258,781	296,509
Net worth	165,921	200,172	227,135	259,077	296,805
Minority interests	71	92	130	166	211
Deferred tax liability (net)	(3,662)	(2,063)	(2,063)	(2,063)	(2,063)
Total debt	0	0	0	0	0
Total liabilities & equity	162,330	198,201	225,202	257,180	294,953
Net tangible fixed assets	9,697	16,555	20,883	20,343	19,910
Net intangible assets	3,560	3,151	2,776	2,282	1,784
Net ROU assets	12,539	19,013	20,224	21,222	22,742
Capital WIP	8,126	4,669	4,669	4,669	4,669
Goodwill	11,892	11,927	11,927	11,927	11,927
Investments [JV/Associates]	54,622	87,502	99,902	119,902	139,902
Cash & equivalents	23,389	18,200	20,892	28,707	38,581
Current assets (ex-cash)	107,327	112,363	124,480	136,105	151,885
Current Liab. & Prov.	68,822	75,179	80,551	87,977	96,446
NWC (ex-cash)	38,505	37,184	43,928	48,128	55,439
Total assets	162,330	198,201	225,202	257,180	294,953
Net debt	(23,389)	(18,200)	(20,892)	(28,707)	(38,581)
Capital employed	162,330	198,201	225,202	257,180	294,953
Invested capital	76,193	87,830	99,738	103,902	111,801
BVPS (Rs)	560.9	676.5	766.9	874.7	1,002.1
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	36.6	34.8	31.1	31.9	32.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	40.1	38.6	37.8	32.2	27.1
P/CE (x)	34.5	32.8	31.1	26.8	22.9
P/B (x)	10.7	8.8	7.8	6.8	6.0
EV/Sales (x)	5.3	4.9	4.6	4.1	3.6
EV/EBITDA (x)	28.6	27.4	26.4	22.4	19.1
EV/EBIT(x)	32.4	31.4	31.1	26.1	22.0
EV/IC (x)	22.9	19.9	17.5	16.8	15.5
FCFF yield (%)	1.2	2.7	2.0	2.9	3.2
FCFE yield (%)	1.2	2.8	1.8	2.7	3.1
Dividend yield (%)	1.0	1.1	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	13.3	12.9	12.3	13.0	13.6
Total asset turnover (x)	2.0	2.0	1.8	1.8	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	26.6	25.0	21.9	22.6	23.5
DuPont-RoIC					
NOPLAT margin (%)	12.4	11.9	11.0	11.7	12.2
IC turnover (x)	4.4	4.3	4.1	4.2	4.4
RoIC (%)	53.8	51.5	44.6	48.8	54.3
Operating metrics					
Core NWC days	42.4	38.2	42.1	41.5	42.2
Total NWC days	42.4	38.2	42.1	41.5	42.2
Fixed asset turnover	8.8	8.0	7.2	7.6	8.6
Opex-to-revenue (%)	81.6	82.0	82.6	81.6	81.1

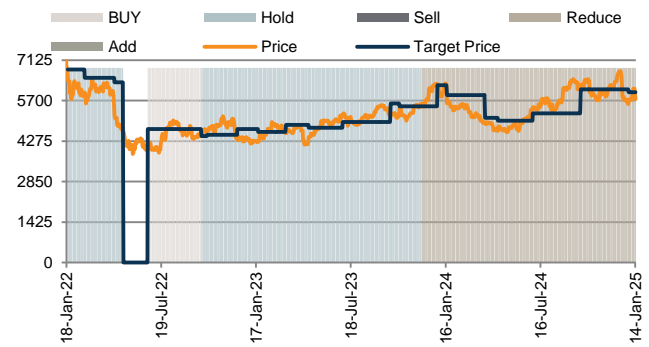
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	5,673	6,000	Reduce	Dipeshkumar Mehta
27-Nov-24	6,262	6,100	Reduce	Dipeshkumar Mehta
18-Oct-24	5,992	6,100	Reduce	Dipeshkumar Mehta
01-Oct-24	6,273	6,100	Reduce	Dipeshkumar Mehta
17-Jul-24	5,562	5,250	Reduce	Dipeshkumar Mehta
01-Jul-24	5,448	5,250	Reduce	Dipeshkumar Mehta
03-Jun-24	4,649	5,000	Reduce	Dipeshkumar Mehta
27-May-24	4,892	5,000	Reduce	Dipeshkumar Mehta
25-Apr-24	4,635	5,000	Reduce	Dipeshkumar Mehta
31-Mar-24	4,938	5,100	Reduce	Dipeshkumar Mehta
01-Mar-24	5,274	5,900	Reduce	Dipeshkumar Mehta
18-Jan-24	5,603	5,900	Reduce	Dipeshkumar Mehta
31-Dec-23	6,295	6,250	Reduce	Dipeshkumar Mehta
30-Nov-23	5,537	5,500	Reduce	Dipeshkumar Mehta
19-Oct-23	5,458	5,500	Hold	Dipeshkumar Mehta
02-Oct-23	5,210	5,600	Hold	Dipeshkumar Mehta
17-Jul-23	5,135	4,950	Hold	Dipeshkumar Mehta
02-Jul-23	5,197	4,950	Hold	Dipeshkumar Mehta
28-Apr-23	4,419	4,750	Hold	Dipeshkumar Mehta
01-Apr-23	4,760	4,850	Hold	Dipeshkumar Mehta
15-Mar-23	4,592	4,850	Hold	Dipeshkumar Mehta
21-Jan-23	4,268	4,600	Hold	Dipeshkumar Mehta
02-Jan-23	4,322	4,700	Hold	Dipeshkumar Mehta
12-Dec-22	4,331	4,700	Hold	Dipeshkumar Mehta
15-Oct-22	4,669	4,500	Hold	Dipeshkumar Mehta
04-Oct-22	4,588	4,450	Hold	Dipeshkumar Mehta
15-Jul-22	3,975	4,700	Buy	Dipeshkumar Mehta
23-Jun-22	4,133	4,700	Buy	Dipeshkumar Mehta
07-May-22	4,593	-	UR	Dipeshkumar Mehta
20-Apr-22	5,170	6,350	Hold	Dipeshkumar Mehta
01-Apr-22	6,174	6,500	Hold	Dipeshkumar Mehta
22-Feb-22	5,991	6,500	Hold	Dipeshkumar Mehta
20-Jan-22	6,606	6,800	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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